

CITY OF BELLINGHAM  
Whatcom County, Washington  
January 1, 1995 Through December 31, 1995

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Schedule Of Findings

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1. The City Of Bellingham Should Improve Internal Controls Over The Cash Receipting System At The Lake Padden Golf Course And Reconcile Golf Course Receipts With Golf Course Management Reports

Our review of the cash receipting procedures at the golf course revealed the cash, check, and charge composition as rung into the cash register does not reconcile to the amount deposited in the bank. As a result of these irregularities, no one can determine if the city has received all revenue due from the golf course.

The City of Bellingham contracts with an outside party to manage the daily operations of the Lake Padden Golf Course. The golf course manager is required to remit the greens fees and a percentage of receipts from the pro-shop and concession sales to the city. The golf course management report is prepared by the manager and is used as the basis to determine the city's share of revenue. The finance department reconciles the deposits from the golf course to the summary "Z" tapes from the golf course cash register in total but not by mode of payment.

We performed two surprise cash counts at the Lake Padden Golf Course during this audit. Due to the significant cash and check irregularities noted during these cash counts, we conducted a further review of the cash receipting system at the golf course. Our review included detail testing of daily cash receipts during the period June 11-22, 1996. We concluded that cash deposited was \$3,043.52 less than cash receipted, checks deposited were \$2,193.57 more than checks receipted, and charges deposited were \$732.79 more than charges receipted. In addition, we performed a cursory review of these records during the period March 1, 1996, through May 31, 1996, which resulted in cash shortages of \$18,154.37, check overages of \$14,857.66, and credit card overages of \$3,792.18.

The golf course manager stated these differences were most likely due to errors in entering the mode of payment on the cash register and to giving cash advances on credit cards. However, neither management nor auditors were able to specifically determine if the June 11-22, 1996, differences were the result of errors or a misappropriation of public funds. The inability to determine if irregularities have occurred is due to the following internal control weaknesses:

- a. **The correct mode of payment is not consistently indicated on the detail journal tapes.** As a result, the cash, checks, and charges deposited do not agree to cash register "Z" tapes. This situation creates an environment where cashiers could purposely not ring in a check or charge transaction and steal the corresponding amount of cash from the register.
- b. **Cash advances are given on credit card transactions.** These unauthorized

cash advances are not rung into the cash register. As a result, cash is short because it is not recorded on the journal tape. This situation creates an environment where a valid credit card transaction can be processed and cash removed for personal gain instead of ringing the transaction into the cash register.

- c. **Several cashiers share the same cash drawer.** As a result, accountability for errors and irregularities cannot be established to any specific individual.
- d. **When the cash drawer becomes full due to a large volume of business, the extra cash and checks are placed in an unlocked box and left on the shelf under the till.** As a result, all cash and checks were not properly safeguarded.
- f. **Checks are not restrictively endorsed when received.** As a result, the checks could be misappropriated by being deposited in a personal account.
- g. **Deposits are not made timely or intact.** This condition creates an environment where a check for cash substitution scheme is possible.
- h. **A mode of payment reconciliation of the receipts to the deposits was not performed.** As a result, any errors or irregularities would not be detected and corrected by management on a timely basis. Furthermore, the city cannot ensure that all revenue due from the golf course is received.
- i. **Tee-time reservation sheets are not retained for review by management or audit.** These sheets represent the original source documents supporting the greens fees revenue for the day. They should be retained and used as a management tool. Without these reservation sheets, the city cannot ensure all revenue due from the golf course is received.

The *Revised Code of Washington* (RCW) 43.09.200, which prescribes the system of accounting for local governments, states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction . . . .

The Merchant Services Contract, between the Lake Padden Golf Course and Seafirst Bank, prohibits cash advances on credit cards. Section 6.9 "Prohibited Practices" (b) states in part:

Merchant shall not give a Cardholder funds (by cash, check or otherwise) in return for a Sales Draft. Each Sales Draft delivered to Bank shall represent the obligation of a Cardholder in the amount stated on the Sales Draft for merchandise sold or services rendered.

The contract between the City of Bellingham and the Lake Padden Golf Course Manager,

which includes the division of revenues, states in part:

The manager shall remit to the City amounts equal to the percentages (after deduction of any applicable sales tax) for the following pro-shop and concession activities:

1. Golf merchandise sales, two percent (2%) of gross receipts;
2. The practice facilities, twenty percent (20%) of gross receipts;
3. Club and pull cart rentals, two percent (2%) of gross receipts;
4. Golf car rentals, three percent (3%) of gross receipts;
5. Sale of refreshments, food, and sundries, one percent (1%) of gross receipts;
6. Beer and wine sales, one percent (1%) of gross receipts;
7. Golf lessons, one percent (1%) of gross receipts;
8. Repair of golf equipment, one percent (1%) of gross receipts.

These internal control weaknesses have occurred because the city has not implemented proper segregation of duties and cash handling policies and procedures for the golf course. Without proper segregation of duties, no assurance can be given that all revenues due to the city have been received.

In addition, the city has not fixed responsibility for properly reconciling cash receipts. The purpose of the reconciliation process is to promptly discover any errors or irregularities which may have occurred and to take action when any errors or irregularities are discovered. The failure of the city to perform the reconciliation increases the risk that all golf course revenue due the city may not be received.

We recommend the Lake Padden Golf Course management improve the segregation of duties and internal controls over cash receipts. We further recommend the city reconcile daily cash receipt records to the end-of-month golf course management report and take prompt action if differences are noted.

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Schedule Of Federal Findings

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1. The City Should Improve Its Accounting For Fixed Assets

As noted in prior audit reports, our review of the City of Bellingham's fixed assets revealed the following weaknesses:

- a. The city does not maintain a comprehensive fixed asset detail ledger for general fixed assets or water/sewer utility assets.
- b. With the exception of the internal service funds and the water/sewer utility, the city does not have a system in place to account for surplus or retired assets.
- c. The city does not take a comprehensive annual physical inventory of its fixed assets.
- d. Federal assets are not consistently identified by a serial number or tag number.

The "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments* Subpart A, \_\_\_\_3 Equipment (4)(d) states in part:

- (1) Property records must be maintained that include . . . a serial number or other identification number . . .
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property  
. . . .

RCW 43.09.200 requires the State Auditor to prescribe uniform accounting systems. The State Auditor prescribes the *Budgeting, Accounting and Reporting System* (BARS) manual which states in Volume 1, Part 3, Chapter 7:

Accountability for fixed assets is required of all local governments, regardless of size. In addition, fixed asset accounting is required for cities and counties of over 8,000 population . . . .

The BARS manual further states:

An adequate fixed asset accounting system will enable your government to meet statutory requirements, to produce adequate records and reports, and to safeguard assets properly.

Additionally, generally accepted accounting principles require accounting for fixed assets and related depreciation.

The inadequate fixed asset accounting is partially attributed to insufficient resources assigned to this area by city officials. City officials indicate they have purchased computer software to assist in the implementation of a comprehensive fixed asset tracking and accounting system. However, at the time of our report the establishment of this system was still in the preliminary phase. City officials indicate they expect the process to be completed in the near future.

Adequate safeguarding or reporting of city fixed assets cannot be assured when accounting procedures and controls are not established. We consider these deficiencies in the fixed assets system to be a material instance of noncompliance and a material weakness in internal controls.

We again recommend the city:

- a. Establish and maintain a comprehensive detail ledger of general fixed assets and Water/Sewer Utility Fund assets.
- b. Ensure that surpluses and retired assets are properly accounted for.
- c. Perform periodic physical inventories and reconcile to subsidiary ledgers.
- d. Provide a means to identify assets through a serial number or tag number.